

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-11 NEA-10 ISO-00 IO-14 AID-20 CIAE-00

COME-00 EB-11 FRB-02 INR-10 NSAE-00 RSC-01 XMB-07

OPIC-12 SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07

SS-20 STR-08 CEA-02 L-03 H-03 PA-04 PRS-01 USIA-15

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P R 050836Z MAR 74

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 1546

INFO AMEMBASSY ISLAMABAD

AMCONSUL KARACHI

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 5/31/74

TAGS: EAID, EFIN, PK

SUBJ: PROPOSED ADB LOAN FOR SUI-KARACHI GAS PIPELINE
PROJECT (PAKISTAN)

SUMMARY: ADB MANAGEMENT PROPOSES \$29.66 MILLION
EQUIVALENT LOAN FROM ORDINARY CAPITAL RESOURCES TO
GOVT OF PAKISTAN TO FINANCE FOREX COST OF CONSTRUCTION
OF 265-MILE LONG GAS PIPELINE ON RIGHT BANK OF INDUS
RIVER TO TRANSMIT NATURAL GAS FROM SUI GAS FIELD TO
POINT NEAR RECENTLY DISCOVERED SARI SING AND HUNDI
GAS FIELDS ABOUT 40 MILES NORTH OF KARACHI. AS PART
OF PROJECT, GOVT WILL FINANCE CONSTRUCTION OF PROPOSED
PIPELINE FOR ABOUT 40 MILES BETWEEN KARACHI AND SARI
SING AND HUNDI GAS FIELDS. NEW GAS PIPELINE WOULD BE
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INTEGRATED WITH EXISTING GAS TRANSMISSION SYSTEM OF SUI

GAS TRANSMISSION CO. LTD. TO MEET GROWING DEMAND FOR NATURAL GAS IN INDUSTRIAL AREAS SOUTH OF SUI GAS FIELD, INCLUDING THE KARACHI AND HYDERABAD AREAS. USADB RECOMMENDS FAVORABLE NAC ACTION.

1. ADB DOC R14-74 WITH ATTACHMENTS DESCRIBING PROPOSED LOAN POUCHED ADDRESSEES FEB 26. BOARD CONSIDERATION SCHEDULED MARCH 14.

2. ADB MANAGEMENT PROPOSING \$29.66 LOAN FROM ORDINARY CAPITAL RESOURCES TO GOVT OF PAKISTAN. PROCEEDS WILL FINANCE FOREX COST OF MATERIALS, EQUIPMENT AND CONSULTANT SERVICES NEEDED FOR CONSTRUCTION OF AN APPROXIMATELY 265-MILE LONG, 18-INCH DIAMETER HIGH PRESSURE STEEL PIPELINE TO TRANSMIT NATURAL GAS FROM SUI GAS FIELD TO SARI SING JUNCTION ABOUT 40 MILES NORTH OF KARACHI. PROPOSED TERMS ARE 25-YEAR AMORTIZATION INCLUDING 5-YEAR GRACE PERIOD, 7 1/2 PERCENT INTEREST. ISLAMIC REPUBLIC OF PAKISTAN TO BE BORROWER AND SUI GAS TRANSMISSION CO. LTD. (SGTC) THE EXECUTING AGENCY. GOVT WILL RELEND PROCEEDS TO SGTC ON TERMS AND CONDITIONS ACCEPTABLE TO BANK.

3. NATURAL GAS DEPOSIT AT SUI IN BALUCHISTAN PROVINCE WAS DISCOVERED IN 1952. IN 1955, SGTC CONSTRUCTED 347-MILE LONG, 16-INCH DIAMETER GAS TRANSMISSION PIPELINE FROM SUI GAS FIELD TO INDUSTRIAL AREAS AT KARACHI AND HYDERABAD AND OTHER INDUSTRIAL AREAS ALONG ROUTE MAINLY ON LEFT (EAST) BANK OF INDUS RIVER UNDER LOAN FROM IBRD. CAPACITY OF PIPELINE SYSTEM IS 140 MILLION CUBIC FEET PER DAY (MMCFD), WHICH IS MAXIMUM CAPACITY THAT CAN BE ECONOMICALLY ACHIEVED BY ADDITION OF COMPRESSION FACILITIES. DEMAND FOR GAS IN AREAS SERVED BY SYSTEM FIRST EXCEEDED IN SEPT 1969, AND LOAD SHEDDING HAS BECOME INCREASINGLY NECESSARY, WITH UNSATISFIED DEMAND FOR GAS BEING MOSTLY MET BY UTILIZATION OF MORE EXPENSIVE FUEL OIL. (IN 1958, SGTC ALSO COMPLETED CONSTRUCTION OF 215-MILE GAS TRANSMISSION PIPELINE BETWEEN SUI GAS FIELD AND MULTAN TO NORTH OF SUI. LINE WAS SUBSEQUENTLY EXTENDED TO LYALLPUR, LAHORE, RAWALPINDI AND PESHAWAR AREAS. IT RECEIVES SUI GAS SUPPLIES THROUGH SUI NORTHERN GAS PIPELINES LTD. RATHER THAN FROM LIMITED OFFICIAL USE

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SGTC.)

4. SGTC'S GAS SUPPLIES ARE SECURED THROUGH LONG-TERM CONTRACT WITH PAKISTAN PETROLEUM LTD. (PPL), A COMPANY INCORPORATED IN 1950 WITH CAPITAL SUBSCRIBED 70 PERCENT BY BURMA OIL CO. (UK) AND 30 PERCENT BY GOVT OF PAKISTAN, WHICH IS PRODUCER AT SUI GAS FIELD. (SEE ALSO PARA 10.) PRESENT PROJECTIONS INDICATE REMAINING RESERVES

OF SUI GAS FIELD SHOULD MEET COMBINED GAS REQUIREMENTS OF PRESENT USERS UNTIL ABOUT YEAR 2000. CURRENT ALLOCATION TO SGTC IS EXPECTED TO BE FULLY UTILIZED BY ABOUT 1981/1982. CONCLUSION OF SATISFACTORY CONTRACT BETWEEN SGTC AND PPL FOR ENSURING GAS SUPPLIES TO SGTC FOR NEXT 25 YEARS WILL BE PRE-CONDITION FOR EFFECTIVENESS OF PROPOSED BANK LOAN. SGTC HAS ALSO BEEN ASSURED OF SUPPLY OF GAS OF COMPARABLE QUALITY FROM GAS FIELDS AT SARI SING AND HUNDI FROM OIL AND GAS DEVELOPMENT CORP, WHICH WAS ESTABLISHED BY GOVT IN 1961.

5. PROPOSED PROJECT INVOLVES CONSTRUCTION OF 305-MILE LONG, 18-INCH DIAMETER PIPELINE ALONG RIGHT (WEST) BANK OF INDUS RIVER, WHICH IS CONSIDERED TO BE OPTIMUM SOLUTION TO MEET PROJECTED DEMAND FOR GAS IN AREAS SERVED BY SGTC. IT WILL PROVIDE GAS TO TOWNS OF LARKANA, DADU AND SEHWAN AND OTHER AREAS ON RIGHT BANK, AND WILL ALSO ALLOW GAS TO BE COLLECTED FROM RECENTLY DISCOVERED GAS FIELDS AT SARI SING AND HUNDI. PROJECT INCLUDES (A) INSTALLATION OF CATHODIC PROTECTION SYSTEM ON PIPELINE TO PROTECT BURIED PIPELINE FROM EXTERNAL CORROSION; (B) INSTALLATION OF COMPREHENSIVE RADIO TELECOMMUNICATION SYSTEM WITH PROVISIONS FOR INCORPORATION OF TELEMETRY AND TELECONTROL EQUIPMENT FOR MONITORING AND CONTROLLING OPERATIONS OF INTEGRATED PIPELINE SYSTEM; (C) INSTALLATION OF POWER GENERATION EQUIPMENT TO MEET ELECTRIC POWER NEEDS AT ISOLATED CONTROL STATIONS ALONG PIPELINE; AND (D) PROVISION OF FOREIGN CONSULTANT SERVICES TO ADVISE AND ASSIST SGTC IN PROJECT IMPLEMENTATION.

6. PROJECT IMPLEMENTATION IS DIVIDED INTO TWO PARTS. PART I INVOLVES CONSTRUCTION OF PROPOSED PIPELINE BETWEEN KARACHI AND SARI SING AND HUNDI GAS FIELDS. IN VIEW OF LIMITED OFFICIAL USE

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URGENT NEED FOR ADDITIONAL GAS SUPPLY IN KARACHI AREA. GOVT AND SGTC WILL FINANCE TOTAL COST OF PART I, WHICH IS SCHEDULED FOR COMPLETION ABOUT OCT 1974 AND WILL MAKE AVAILABLE ABOUT 14 MMCFD OF GAS TO KARACHI. PART II, WHICH BANK PROPOSES TO ASSIST IN FINANCING, CONSISTS OF CONSTRUCTION OF PIPELINE FOR ABOUT 165 MILES BETWEEN SUI GAS FIELD AND SARI SING JUNCTION. TECHNICAL PROVISIONS WILL BE MADE FOR LINKING PIPELINES UNDER PARTS I AND II. GOVT AND SGTC HAVE ASSURED PART I WILL BE CONSTRUCTED AND COMMISSIONED PRIOR TO COMPLETION OF PART II. PART II IS SCHEDULED FOR COMMISSIONING IN 1976, AND WILL INCREASE TOTAL CAPACITY OF SGTC'S INTEGRATED GAS TRANSMISSION SYSTEM FROM 140 MMCFD TO 271 MMCFD. THIS CAPACITY IS EXPECTED TO BE SUFFICIENT TO MEET GAS DEMAND UNTIL ABOUT 1979, WHEN INSTALLATION OF 5500 HORSEPOWER OF COMPRESSION

FACILITIES WILL BE REQUIRED TO RAISE CAPACITY TO 320
MMCFD. IT IS ANTICIPATED THAT INSTALLATION OF ADDITIONAL
8800 HP OF COMPRESSION FACILITIES WILL BE REQUIRED BY
1982 TO RAISE CAPACITY TO 390 MMCFD.

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ACTION TRSE-00

INFO OCT-01 EA-11 NEA-10 ISO-00 IO-14 AID-20 CIAE-00

COME-00 EB-11 FRB-02 INR-10 NSAE-00 RSC-01 XMB-07

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SS-20 STR-08 CEA-02 L-03 H-03 PA-04 PRS-01 USIA-15

FPC-01 FEA-02 INT-08 DRC-01 /187 W

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P R 050836Z MAR 74

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7. TOTAL CAPITAL COST OF PROJECT (BOTH PARTS I AND II)
IS ESTIMATED AT \$48.85 MILLION, OF WHICH FOREX COMPO-
NENT IS \$29.03 MILLION. FOREX COST OF PART II FOR WHICH
BANK FINANCING REQUESTED IN ESTIMATED AT \$26.22 MILLION.
BANK ALSO REQUESTED TO FINANCE PART II INTEREST DURING
CONSTRUCTION OF \$3.44 MILLION.

8. SGTC WILL BE EXECUTING AGENCY FOR PROJECT IMPLEMENTATION.
PROJECTS DEPT OF SGTC, WHICH IS CONSIDERED TO HAVE EX-
PERIENCE OF DETAILED DESIGN AND ENGINEERING WORK ON GAS
TRANSMISSION PIPELINE SYSTEMS TO ACCEPTABLE INTERNATIONAL
STANDARDS, HAS COMPLETED DETAILED DESIGN AND ENGINEERING
WORK FOR PART I AND IS NOW FINALIZING WORK FOR PART II.
DESIGN, CONSTRUCTION, OPERATION AND MAINTENANCE OF PIPE-

LINE TO BE IN ACCORDANCE WITH REQUIREMENTS OF AMERICAN SOCIETY OF MECHANICAL ENGINEERS (ASME) GUIDE FOR GAS TRANSMISSION AND DISTRIBUTION PIPING SYSTMS, 1973, AND MINERAL GAS SAFETY RULES - 1960 OF PAKISTAN. CONSTRUCTION LIMITED OFFICIAL USE

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WORK WILL BE CARRIED OUT BY SGTC'S CONSTRUCTION DEPT, SUPPLEMENTED BY SERVICES OF LOCAL CONTRACTORS AS NECESSARY FOR MINOR CIVIL WORKS. CONSTRUCTION MANAGER WITH WIDE EXPERIENCE IN LAYING GAS PIPELINES HAS BEEN APPOINTED, AND KEY SUPERVISORY PERSONNEL ALREADY RECRUITED.

9. FOREIGN CONSULTING TEAM IS TO BE RECRUITED IN ACCORDANCE WITH BANK'S GUIDELINES ON USES OF CONSULTANTS AND WILL COMPRISE ONE GAS PIPELINE DESIGN AND ENGINEERING EXPERT, ONE CATHODIC PROTECTION SYSTEM EXPERT, ONE TELECOMMUNICATIONS, TELEMETRY AND TELECONTROLSYSTEM EXPERT, AND TWO GAS PIPELINE CONSTRUCTION EXPERTS (AT \$550,000 ESTIMATED FOREX COST). PROCUREMENT UNDER BANK FINANCING TO BE CARRIED OUT IN ACCORDANCE WITH BANK'S GUIDELINES FOR PROCUREMENT, WITH INTERNATIONAL SHOPPING FOR CONTRACTS LESS THAN \$75,000 AND INTERNATIONAL COMPETITIVE BIDDING FOR CONTRACTS IN EXCESS OF \$75,000. PROCUREMENT TO INCLUDE PIPES, VALVES AND FITTINGS (\$16.05 MILLION), CONSTRUCTION PLANT AND EQUIPMENT, MOTOR VEHICLES AND INSPECTION FACILITIES (\$4.81 MILLION), CATHODIC PROTECTION EQUIPMENT AND PROTECTIVE MATERIALS \$1.33 MILLION) AND TELECOMMUNICATION AND POWER GENERATION EQUIPMENT (\$1.1 MILLION). PROCUREMENT OF PIPES TO BE LIMITED TO MANUFACTURERS REGISTERED WITH AMERICAN PETROLEUM INSTITUTE (API) AND AUTHORIZED TO USE API MONOGRAM ON HIGH-TEST PIPE IN ACCORDANCE WITH API SPECIFICATION SLX. PROCUREMENT OF VALVES, CATHODIC PROTECTION EQUIPMENT AND OTHER ITEMS TO BE INSTALLED MUST COMPLY WITH ASME'S GUIDE.

10. SGTC IS LIMITED LIABILITY COMPANY, WITH 40 PERCENT OF SHARES HELD BY GOVT AND GOVT-OWNED INSTITUTIONS, 24.5 PERCENT BY BURMAH OIL COMPANY AND BALANCE BY INDIVIDUAL SHAREHOLDERS. ADDITIONAL ISSUE OF SHARE CAPITAL BEING PROPOSED BY SGTC TO RAISE PART OF FINANCING FOR PROJECT IS EXPECTED TO BE TAKEN UP BY GOVT, WHICH WILL INCREASE GOVT'S SHARE TO ABOUT 88 PERCENT. FINANCIAL PERFORMANCE OF SGTC HAS BEEN LESS THAN SATISFACTORY. FOR PERIOD 1969-1973, COST OF GAS SOLD HAS RISEN AT A MUCH HIGHER RATE THAN SALES PRICE. ACCORDINGLY, OPERATING MARGIN, RETURN ON FIXED ASSETS AND EQUITY HAVE BEEN DROPPING STEADILY. CONTINUING PAYMENT OF CASH DIVIDENDS HAVE LIMITED OFFICIAL USE

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ALSO REDUCED UNAPPROPRIATED RESERVE WHILE EXCESS EXPENDITURES OVER CASH INFLOWS HAVE RESULTED IN DECREASE OF CASH BALANCES AND WORKING CAPITAL. FURTHERMORE, MAY 1972 RUPEE DEVALUATION HAS INCREASED COST OF FOREIGN DEBT SERVICING, WHEREBY SGTC DEBT SERVICE RATIO DETERIORATED FROM 2.0 IN 1969 TO 1.0 IN 1973. BANK DOC NOTES THESE UNSATISFACTORY FINANCIAL RATIOS HAVE BEEN DISCUSSED THOROUGHLY. GOVT HAS GIVEN BANK ASSURANCES THAT IN REGULATING GAS TARIFFS IT WILL ENSURE FINANCIAL VIABILITY OF SGTC'S OPERATIONS SO AS TO ENABLE SGTC TO ACHIEVE AND MAINTAIN, FROM SECOND YEAR AFTER COMMISSIONING OF PROJECT, (A) DEBT SERVICE RATIO OF NOT LESS THAN 1.5, (B) OPERATING RETURN ON NET FIXED ASSETS OF NOT LESS THAN 10 PERCENT AND (C) CURRENT RATIO OF NOT LESS THAN 1.5.

11. BANK CONSIDERS PROPOSED PROJECT TO BE TECHNICALLY SOUND AND ECONOMICALLY VIABLE. GOVT HAS ASSIGNED PROJECT VERY HIGH PRIORITY. NATURAL GAS MADE AVAILABLE UNDER PROJECT WILL SUBSTITUTE FOR SOME OF MORE EXPENSIVE FUEL OIL CURRENTLY USED AND WILL GENERATE ECONOMIC BENEFITS IN FORM OF SAVINGS IN COST OF FUEL CONSUMPTION. THIS IS EXPECTED TO GIVE GREATER INCENTIVES TO INDUSTRIAL EXPANSION AND ECONOMIC GROWTH IN GENERAL. GAS SERVICES EXPECTED TO BE EXTENDED TO GROWING MEMBER OF DOMESTIC CONSUMERS. USE OF NATURAL GAS WILL ALSO HAVE ECOLOGICAL BENEFITS. ECONOMIC RATE OF RETURN, BASED ON QUANTIFIABLE BENEFITS, ESTIMATED AT 18.2 PERCENT, AND FINANCIAL RATE OF RETURN IS 13.2 PERCENT. USADB SUPPORTS PROPOSAL AND INTENDS TO EMPHASIZE IMPORTANCE OF FINANCIAL VIABILITY OF SGTC'S OPERATIONS. FAVORABLE NAC ACTION IS RECOMMENDED.

12. REQUEST ISLAMABAD'S COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DTD 3 JULY 1972.

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Message Attributes

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Copy: SINGLE
Draft Date: 05 MAR 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
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